

No one is immune...we're all in the boat together

A look at the impact of the current financial crisis in the U.S. and its effect on the paint, coatings and related industries.

CHEMARK will not comment at this time on the near calamity mess we're in with the so-called financial community. We can only say that the resolution and potential \$700 billion dollar bailout will have a lasting effect on all the segments we track and consult within.

Considering only a few but important segments we track, reliable statistics indicate the following contributions to our gross domestic product (GDP):

- Automotive contributes 14% to the U.S. manufacturing GDP;
- Electronics contribute 27% to the U.S. manufacturing GDP;
- Appliances contribute two percent to the finance, insurance, real estate, rental and leasing GDP;
- Housing starts contribute 55% to the finance, insurance, real estate, rental and leasing GDP and 13% to the total private industry sectors; and lastly
- Construction contributes four percent to the total private industry sectors GDP and 26% compared to the total manufacturing industry sectors.

These five industries contribute a total of 23% to our total U.S. GDP. As a reader, you are probably in the value chain of activity supporting coatings, paints, adhesives or sealants to these industries and, therefore, subject to the shifts these industries experience, either directly or indirectly. It makes sense, therefore, that we track and understand the underpinnings of each if we are suppliers to these industries . . . RIGHT?

The fact that these industries are all currently depressed is not a surprise but the extent of their negative position on the longer term may in fact be a surprise. Automotive and passenger truck production is down 14%; appliance production is down nine percent; housing starts are off 33.1%; non-residential construc-

tion is off two percent; and lastly, electronics are off seven percent. This is the situation through just the first half of this year. Even more to the point, they haven't improved from June and are even worse now.

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All of these industries are influenced greatly by relative ease of available credit terms at the end-user position of the "chain." Certainly when credit tightens, houses are not built, autos and trucks are not produced, and appliances and electronics are not in demand if the aforementioned are not purchased allowing the latter items to be "pulled" through the system.

Versus the same 2007 time period, architectural paints are off 18% through June and estimated to continue to be off through August at a 20% rate and, will get worse as paint data for housing lags housing start data. In addition "starts" will most probably decline even further when compared to 2007 same period through the second quarter 2009.

We see a continued decline in auto OEM coatings sales in both gallons and dollars through the year and well into 2009, equaling a year over year negative comparison of 20% for 2008 and 22% in 2009. Contributing to the lower rates of coatings usage based on lower

auto production is the fact that less square footage available to paint will exist per unit as the more gas-efficient shift in domestic autos downsized and trucks are deemphasized in the overall marketing mix.

The coatings for major appliances will move sharply down through 2009, from nine percent below 2007 levels in 2008 to almost double that rate to 17% in 2009. This is only logical since appliance sales will follow housing starts, which are off over 33% this year.

New housing will continue to be weak, which in general, use lower quality PVA interior paint versus remodeled houses which use higher quality acrylic systems. The latter segment will increase slightly in units and even greater in value. This is important since in economic downturns more remodeling takes place in lieu of moving to or building a new house.

The local PPG dealer and friend, Joe Waldschmidt, reminded me recently that the Pinehurst/Southern Pines, NC area is atypical of many parts of the country since housing is not as depressed here. However, it has definitely slowed due primarily to retirees in the north being unable to sell their homes and retire, as planned, in the south.

Yes, this information is far from uplifting however, we must face the facts that for the foreseeable minimum of 24 months our businesses will not operate "as usual." We must make painstaking changes and manage our businesses very carefully while we continue to take prudent risks. This period will be good for some and bad for others. The more fully integrated a company is the better positioned it is to withstand these negative change influences. That's a no brainer!

However, a smaller company with long established goodwill with its sup-

pliers can survive and even prosper in these bad times as well if, in addition, it manages the velocity of cash better than most.

Hopefully, by the time this column

goes to press, we will have an improved view of the impact the "bailout" will have on our industry. **CW**

See Chemark's ad this month on page 44.